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# INDUSTRIAL AND FINANCIAL COÖPERATION.

BY FRANCIS B. THURBER.

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THE increasing tendency of the larger business houses to incorporate is noticeable, and it is interesting to examine the whys and wherefores of it, and also take a glance at the entire coöperative field.

The underlying causes to which the increased activities of coöperation are chiefly attributable, are, undoubtedly, steam, electricity, and machinery, which constitute the controlling forces in the industrial, commercial, and, indeed, the entire politico-economic world. These forces have so increased the activities of competition, both in manufacturing and distribution, that they have greatly fostered the transaction of business on a large scale, which could command the best talent and the greatest economies.

This is manifested in so many different forms that it is difficult to do more than allude to some of the principal types of coöperative effort; and these, perhaps, naturally divide into coöperative production and coöperative distribution. It is in the latter that the greatest strides seem to have been made, although the coöperative principle is being recognized increasingly in both branches.

It is now many years since the manufacture of butter and cheese by the factory or coöperative system became a success, and through this the average quality of our butter and cheese supply has been greatly improved, with the result also that prices, on the whole, are considerably higher; a tendency, by the way, which is in striking contrast with the effect on most other articles that are produced coöperatively.

Various persons have claimed the credit of introducing the "factory" system of cheese-making, but while many have helped, probably no one person is entitled to the entire credit. It was perfectly evident that some farms possessed better facilities than others for making cheese. Some localities had better water;

some possessed more skilful cheese-makers ; some had better appliances than others ; and it was a natural evolution of the business that it should occur to some one that if the milk or cream was brought to a central station where the best facilities existed, and where it could be manipulated by an expert, a better result would be obtained than where a dozen or twenty different farmers operated under as many different conditions and with varying degrees of skill.

So the manufacture of cheese under the factory system became at once a success, and suggested the coöperative system in making butter, which is popularly known as the "creamery" system ; all the farmers within a given area bringing their cream to a central station, where it is made into butter, with a much better average result than would be obtainable by individual effort.

The same principle is now worked out in the manufacture of sugar, the cane being conveyed to central sugar-houses, and in many different mining and manufacturing companies, where, to prosecute the business economically, more capital than is at the command of the average individual operator is required. Hence companies have been formed in which capital is worked coöperatively, producing far better results than could otherwise be obtained. Any number of stockholders can thus be combined as partners in an establishment large enough to command the best talent and the best facilities.

The stocks of the great manufacturing establishments, both in England and the United States, are, in many cases, widely distributed ; and where this did not take place in the beginning, as the business increased and the vitality of the individual owners decreased, in many cases they were reorganized upon a coöperative basis.

The uncertainties of life, and the difficulty of valuing and distributing estates after death, especially where a business was conducted by a partnership, are, of themselves, a strong reason for organizing upon a stock-company basis, and of late years there have been many cases, both in productive and distributive coöperation, where this was a controlling consideration.

#### DISTRIBUTIVE COÖPERATION.

Probably the first prominent instances of distributive coöperation were found in transportation lines. Even before the advent

of steam, individual shipowners combined their interests in lines of packet-ships, whose regularity of sailing, combined with the best-known improvements in the handling of merchandise and the quality of service rendered, gave them an advantage over irregular ships, which in this day and generation are now generally known in trade parlance as “tramps”—a graphic bit of trade slang, by the way, which well illustrates the tendency of business to organize more closely.

With the advent of railroads on land, coöperation in their construction and operation became a necessity; and, as an agency in the distribution of products, banks also furnish a prominent illustration of the economies and effectiveness of coöperative effort.

Distributive coöperation has been, perhaps, brought before the public most prominently through the success of the so-called coöperative stores in England, but such stores, strange to say, in this country have not been a success, although other forms of coöperation here have succeeded admirably. The reason, however, is probably found in the different conditions. In England the retail trade had grown into a system of long credits. Many landed proprietors and others received their income only at long intervals, and this led retail merchants into the habit of selling a large portion of their trade on long time, which inevitably resulted in considerable losses from bad debts; so the dealers had to raise their margins of profit upon all their customers to a point which would still leave them a living. This was virtually making the cash-paying customer support the customer who did not pay at all; and when this abuse became extended, the persons with fixed incomes who paid their debts naturally objected, and the result was the formation of societies for coöperative distribution on an economical cash basis.

One of the first of these societies was started at Rochdale, a manufacturing centre, and its success stimulated the establishment of similar societies in other places, until finally a wholesale coöperative society was established at Manchester for the supply of constituent retail societies. The employees of the civil service, and the army and navy, representing considerable classes by themselves, established large supply stores, which deal in almost everything required in the household, and have been very successful. The success, however, of the first-comers in the distributive

coöperative field induced many others to make similar attempts, which were not equally successful. The grocers soon learned that in order to compete with the coöperative establishments they must adopt the cash system, and give as good or better value and service, and this has been done to a great extent. It is safe to say that the coöperative movement in England grew out of a necessity, and has remedied an abuse. The same state of things did not exist in the United States. Retail merchants generally sold on closer margins of profit ; many of them did business for cash ; and hence the same conditions and necessities did not exist here that gave rise to the coöperative stores in England. Many attempts have been made, but only a few of them have succeeded, and those only to a moderate extent. In such cases success was probably due to exceptionally good management, and perhaps, to some extent, to other local conditions favoring coöperative distribution. It is probable also that the opportunities in this country for enterprising men to develop had something to do with the difficulties experienced here in obtaining competent and honest managers for reasonable compensation. Men reasoned that, if they could make money for a coöperative association, they could make as much, or more, for themselves, and did not feel called upon to sacrifice their own interests to the coöperative idea.

A phase of the coöperative principle which has attracted much attention during the last few years has been the reorganization of firms into corporations, and the virtual admission of the public to partnership in the various establishments. This has become of great interest to investors, and has attracted a great deal of capital from savings-institutions and from other investments paying but a small rate of interest.

In some lines of business there seems to be almost an epidemic of such reorganizations, especially in England. Take, for instance, the brewing business in both England and the United States. Beginning with the Guinness breweries in Dublin a few years ago, there have been absorbed a large number of the most prominent breweries in England, Ireland, and this country ; and more recently the idea has extended to other lines, prominent among which are the London concerns of Foster & Porter, and the Fore Street Warehousing Company, wholesale dry-goods establishments, and John Howell & Co., jewellers ; and very recently it has been announced that Messrs. Maple & Co., the great furnishing-

house of London, has been turned into a corporation with a capital of £2,000,000, or \$10,000,000.

In this country the establishment of Tiffany & Co., of New York, was probably the first prominent example of a commercial house becoming a corporation, and its greatest successes have been achieved since its change of form. Last year the great dry-goods house of H. B. Claflin & Co. became the H. B. Claflin Company, and within a few months Thurber, Whyland & Co., probably the oldest and largest wholesale grocery house in the world, became the Thurber, Whyland Company.

In all these cases the capital stocks were very widely distributed, a feature being large subscriptions by employees; and a feature of some of the later incorporations, notably that of the Trow Directory, Printing, and Bookbinding Company, is that the employees are represented in the board of directors by one of their number. This class of stocks is, as a rule, sought for by small investors who wish to make more than the rate of interest allowed by savings-banks and trust companies. They are non-speculative in character, and such investments are likely to become favorites with the smaller class of *bond-fide* investors.

Another class of coöperative investments, somewhat more speculative in character, is found in the combinations in various industries, such as the Standard Oil Company, or Trust, with a capital, or "certificates," of \$90,000,000; the American Sugar-Refining Company, commonly known as the "Sugar Trust," which has combined the principal sugar refineries of the country, with a capitalization of \$50,000,000; the National Cordage Company, which embraces the principal rope, cordage, and twine manufacturers of the country, with a capital of \$15,000,000; the American Cotton-Oil Company, with a capital of \$32,000,000, which undertakes to own and control the principal mills for making cotton-seed oil; the Distillers and Cattle-Feeders' Company, with a capital of \$31,500,000, which owns nearly all the distilleries of the country manufacturing alcohol and spirits; the Lead Trust Company, which owns and controls the principal white-lead manufactories of the country, with a nominal capital of \$90,000,000; the Linseed-Oil Trust, capital \$18,000,000; the American Tobacco Company, capital \$10,000,000, which has practically consolidated the cigarette and smoking-tobacco manufactories of the country; the National Starch Company,

capital \$9,500,000; and there are a number of other organizations formed for the purpose of controlling some particular industry, limiting production to the wants of the market, and maintaining prices which will be remunerative to the manufacturers.

In these objects they have been only partially successful; and it may be said that only in cases where prices have been kept down to a reasonable profit, so that new capital is not tempted into these industries, are they likely to be successful. Their shares are dealt in on the Stock Exchange, and some of them are extremely speculative in character, exhibiting violent fluctuations as they are worked up and down by the "insiders." Unless this speculative element is eliminated, it will probably injure the reputation of industrial stocks generally as legitimate investments. Indeed, it has already been proposed to call the securities of the individual corporations "commercial investment stocks," in order to distinguish them from the more speculative "industrials," which usually represent amalgamations of different establishments.

Even the speculative industrials, however, are likely, in the long run, to pay investors dividends much larger than investments in railroad securities; and the only wonder is, when one contemplates the vast number of railroad reorganizations, with the wiping-out or scaling-down of investments through competitive building, and the cutting of rates by speculative directors and managers, to say nothing of Granger legislation and Interstate Commerce-Law complications, that investors do not stop buying railroad securities altogether and invest in industrial or commercial investment stocks.

The following from the New York *Daily Commercial Bulletin* of January 7, 1891, strikingly illustrates how investors in railroad securities have been swindled:

"The Chicago *Railway Age* publishes a compilation showing the foreclosure sales and receiverships of railroads in the United States during 1890, which strikingly reflects the depressed condition of that interest. Within the past year twenty-nine companies were subjected to foreclosure sale, with a funded debt of \$90,851,000 and a capital stock of \$91,654,000. Discouraging as this showing may appear, yet it is a fact still more discouraging that the foreclosures of the last fifteen years show even a higher annual average than those of 1890. Since 1875 the aggregate foreclosure sales cover 50,525 miles, with \$2,865,000,000 of combined stock and bonds, or an average of \$191,000,000 per annum. Of this huge total, \$980,000,000 occurred during the three years 1885, 1886, and 1887; and yet so little was the moral effect of

those disastrous years that, immediately following, a furore of speculative construction set in which resulted in the severe financial crisis from which we are now emerging. The foregoing significant figures, however, tell only part of the story; for, within the past year 2,963 miles of road have been placed under receiverships with a combined total of capital stock and bonds amounting to \$105,007,000. When may we expect investors to learn better than to put their capital into railroad schemes started on a wholly speculative basis?"

Industrial investments may have their good and their bad years, but they certainly cannot fail to make a better record by far than the foregoing, or, indeed, the government loans in which English and other foreign investors have so freely invested their savings at low rates of interest.

#### BUILDING AND LOAN ASSOCIATIONS.

Another form of coöperative investment which has grown very rapidly during the past few years is the building and loan associations, which are nothing more or less than coöperative savings-banks, and constitute a form of life insurance which has been as successful as it has been beneficent. But few people are aware of the extent to which the coöperative principle has been applied in this direction. A recent article in *Bradstreet's* says:

"The aggregate resources of the savings associations of the country are nearly 60 per cent. of the entire assets of all State, savings, loan and trust companies and private banks and bankers from which reports were received last year. Their deposits were less than 10 per cent. below those of the national banks, and were more than twice as large as the total capital stock of the national banks. With this true now, when ordinary savings-banks are practically confined to a small part of the country, what will happen when the new form of savings-bank gets its growth throughout the Union?"

The chief development of the building and loan associations has been in the Western States, although they have also a strong hold in the Middle States. The last report of the Comptroller of the Currency showed that, of the 637 strictly old-style mutual savings-banks in the country, all but 11 are in the New England and Middle States with Maryland and the District of Columbia.

The building and loan association, or coöperative savings-bank, has many features which give it superiority over the ordinary savings-bank. It is conducted by people who give it their time for nothing, as the association meets generally but once a month in some room or hall where the expense is but small for rent and fittings. Deposits are paid at stated periods and the depositors themselves really control and manage the association.



The only drawback has been that these really beneficent coöperative institutions have been somewhat interfered with by speculative organizations similar in name and calling themselves national building and loan associations and various other high-sounding titles. These are gotten up by schemers who seek to ride into the possession or control of capital on the front wave of popularity of the local building and loan associations. Various States are now enacting legislation which will bring all forms of coöperative savings-banks or associations under State supervision, and it is expected that this will tend to prevent or restrict the abuses of the so-called national building and loan associations before alluded to.

Other features of the building and loan association, or the coöperative savings-bank, are, that it lends only to depositors, that it lends to the highest bidder (provided the security is good), and secures by the share system repayment on the instalment plan. It has become a popular means for workingmen to procure homes; and this, together with the industrial establishments taking the form of corporations in which employees and the public can become shareholders and virtually partners, is destined in the near future to play an important part in advancing the prosperity of the masses. It is a development of the coöperative idea which is in perfect accord with the spirit of our country's institutions; and although we may never reach Mr. Bellamy's politico-economic millennium, coöperation in its various phases will do much to that end.

F. B. THURBER.